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SUBJECT: TAJIKISTAN: 2010 INVESTMENT CLIMATE STATEMENT

REF: 09 STATE 124006

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Tajikistan presents selected opportunities for investors who are willing to put significant research and effort into market development. The poorest of the former Soviet republics, Tajikistan lags economically behind most of its neighbors. The Tajik government relies largely on foreign state-led investment and loans from China, Russia, Kazakhstan and Iran, as well as assistance from international financial institutions, for major infrastructure projects. The Government has shown interest in seeing broader foreign investment, but has a poor record implementing the reforms necessary to attract investors from abroad. There have been some positive steps over the past year, for instance the creation of a single window for business registrations and simplification of the regulatory environment. At the same time, however, Tajikistan's tax code remains byzantine, its legislation is confusing, and, more than anything else, its officials remained steeped in a culture of corruption.

Even where the legal structure is designed to attract investment, the actual practice of the authorities discourages investors. Until Tajikistan successfully changes such behaviors, it will not attract or support significant growth in foreign direct investment.

#### OPENNESS TO FOREIGN INVESTMENT

Tajikistan mostly courts state-led investment from the country's perceived geopolitical friends rather than making conditions favorable to private investors from abroad. The government burdens the private sector with unnecessary costs and creates substantial uncertainty and risk through non-transparent practices and barriers to competition. Accordingly, the principal investors in recent years have been governments with geopolitical interests in the area, especially Russia, China, and Iran. As a result of the world financial crisis, however, non-state foreign direct investment (FDI) from these three countries amounted to only \$22.4 million in the first 9 months of 2009, compared to over \$300 million during the equivalent period in 2008. Foreign direct investment from other countries totaled \$48.3 million during the same period, a third of the 2008 figure.

President Rahmon has made numerous public and private statements calling for increased foreign investment, particularly in hydropower. But the government's recent promise to finance its largest hydro project, Roghun using only domestic financing has

disoriented potential investors.

If recent efforts to improve the business climate are implemented and sustained, the picture may slowly change. Provided conditions are right, opportunities for investment exist in hydropower, construction, food processing, textile, and consumer goods, as well as natural resource extraction.

According to the 2007 Investment Law, foreign investments can be made by:

- Owning a share in existing companies, either jointly with other Tajik companies or Tajik citizens;
- Creating fully foreign-owned companies under the laws of Tajikistan;
- Acquiring assets, including shares and other securities;
- Acquiring the right for use of land and other mineral resources, as well as exercising other property rights either independently or shared with other Tajik companies and citizens of Tajikistan;
- Concluding agreements with legal entities and citizens of Tajikistan providing for other forms of foreign investment activity.

The judicial system recognizes sanctity of contracts in principal; however contract enforcement is poor, due in part to inadequate legal awareness and the court system's lack of independence. While Tajikistan is party to a number of arbitration agreements and conventions, it does not have its own internationally recognized arbitration system. The courts do not always respect or uphold international arbitration rulings.

According to the Civil Code (Article 1) there is no legal discrimination against foreign companies and entities. Practically all of Tajikistan's international agreements have a provision for most favored nation status.

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In July 2009 a "single-window" business registration system took effect, which applies to both foreign and domestic applicants. The old system required applicants to register with multiple government agencies with a series of confusing requirements, virtually guaranteeing that extra payments would have to be made to streamline the often lengthy process. Under the new system, applicants pay a fixed fee at the Tax Committee and receive permission within five working days. While some glitches remain, including officials loath to give up their power, by most accounts the system is a great improvement over previous practice. This and several other reforms targeted at opening, maintaining, and closing a business were designed to improve Tajikistan's position on the World Bank's "Doing Business" rankings. On the strength of its initial reforms, Tajikistan moved up 12 places in the most recent rankings.

In other areas, however, improvements have yet to emerge. Tajikistan's State Committee on Investments and State Property, created in 2006 to assist investors, so far has done little to fulfill its mission. Plans to create a website for foreign investors seeking information on opportunities in Tajikistan have not gotten off the ground. There are no established criteria for screening investment proposals, and potential investors go through a lengthy screening process by all (potentially) concerned government agencies, rather than working with a single investment promotion agency.

The government has embarked on an on-again, off-again process of privatizing state-owned companies. Privatization of small and medium enterprises is mostly complete, while the process continues for larger concerns. Although there are no limits on foreign participation, in many circumstances non-transparent decisions are made that favor investors with connections to the existing power structure. Some of the largest enterprises, belonging to Tajikistan's transportation, infrastructure and electricity distribution and maintenance sectors, will remain government-owned for the foreseeable future.

There is no legally-sanctioned discrimination against foreign investors at the time of the initial investment or after the investment is made. Current investment law and tax code provide for incentives, including a waiver on taxation on initial investment and VAT-free importation of some industrial equipment. Companies may have a difficult time realizing these benefits, however, due to poor implementation of tax regulations and/or corrupt tax authorities. The onus of proving that an investment qualifies for the benefits is on the investor, and Tajik authorities are often skeptical. The government also attempts to increase revenue by taxing profitable companies more aggressively. The fact that the tax burden is placed on companies that have a greater degree of compliance with regulations results in distorted competition. To avoid predatory behavior by the ruling elite, some foreign investors find it easier -- some say necessary -- to establish joint ventures with well-connected officials, including the President's family.

Legally, foreign companies are treated the same as domestic companies in obtaining licenses, approvals, and procurements. They may find, however, that Tajik authorities demand higher official and unofficial payments from them. There are no laws or regulations authorizing private firms to limit or prohibit foreign investment, participation, or control.

According to some sources, even well-meaning companies are forced to violate some tax legislation, since internal contradictions and draconian rules make it impossible to abide by all existing rules. Beginning in December 2009 the government began forcing individuals and enterprises across the country to make sizable "voluntary" contributions to the Roghun hydroelectric dam construction project. Those refusing to pay have received threats of varying severity.

Although the Tajik economy began growing rapidly at 8-10% per year in 2000, many economic indicators remain below the benchmarks of 1991, when Tajikistan became independent. Tajikistan's gross domestic product (GDP) grew 7.9% in 2008, but slowed to an estimated 2% in 2009, or \$4.58 billion, due to the world financial crisis. Some earlier crisis-fueled nervousness among depositors has calmed, and bank deposits (legal entities

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and personal) began increasing in late 2009 after falling off over 2008. The informal economy is still quite substantial; according to some estimates, it may be as high as \$2 billion, over one-third the size of official GDP. Tajikistan's banking sector is relatively undeveloped, and businesses tend to raise capital through other means, including selling off assets and borrowing from other companies or individuals.

The government does not impose geographic restrictions on business operations, but topography (93% of the country is mountainous), poor infrastructure, and lack of adequate energy pose their own restrictions. Roads in Dushanbe and Khujand are poor even by Central Asian standards, and roads outside of major towns are often unpaved and poorly maintained. A few major routes, such as those between Dushanbe and Khujand, Dushanbe and Gharm, and Dushanbe and the Afghan border, are being renovated with foreign financing. Weather also impacts commerce; overland travel to parts of the country (e.g., the Gorno-Badakhshan Autonomous Oblast) is difficult if not impossible in the winter and spring. Electricity production is well short of demand, especially in the winter. For three to six months of the year, most parts of the country outside of Dushanbe receive a few hours of power each day. Overland import/export requires patience and ingenuity as customs agents at borders and internal checkpoints frequently seek bribes to allow passage.

Tajikistan's rankings on a few selected indices are as follows:

INDEX	SCORE (max)	RANKING (out of)	YEAR
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Transparency International Corruption Perceptions Index	2.0 (10)	158 (180)	2009
Heritage Foundation Index of Economic Freedom	53.0 (100)	128 (179)	2010
World Bank Doing Business Ranking	n/a	152 (183)	2010

Tajikistan's rankings on selected Millennium Challenge Corporation (MCC) Indices for fiscal year 2010 are as follows:

MCC INDEX	SCORE	PERCENTILE
Government Effectiveness	-0.09	39%
Rule of Law	-0.22	29%
Control of Corruption	-0.21	32%
Fiscal Policy	-3.6	19%
Trade Policy	82.5	95%
Regulatory Quality	-0.34	32%
Business Start-Up	0.958	78%
Land Rights and Access	0.559	33%
Natural Resource Management	70.88	72%

#### CONVERSION AND TRANSFER POLICIES

Tajikistan does not restrict conversion or transfer of funds up to \$100,000; higher amounts are subject to approval by the National Bank of Tajikistan. However, an underdeveloped banking infrastructure, with strict government controls and limited capital, presents obstacles for investors in finding local sources of financing. Although legal, it is often difficult in practice to conduct large currency transactions, due to the limited amount of foreign currency available in the domestic financial market. Investors are free to import currency. The minimum regulatory capital for commercial banks is \$5 million. All banking institutions (13 commercial banks, including three branches of foreign banks) meet this requirement.

#### EXPROPRIATION AND COMPENSATION

The Law on Investments details the types of actions that can be taken with regard to expropriation of property. There have been no known cases where foreign commercial entities have had their property seized, but there have been several recent cases of potential or actual state expropriation of other privately-owned property under dubious circumstances. In one case, that of a foreign-owned church, the rationale appears to be political.

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While the Law states that investors are to be reimbursed for expropriated property, actual compensation may be minimal.

#### DISPUTE SETTLEMENT

In official pronouncements, the Tajik government values the rule of law; in practice, however, it has not demonstrated a clear understanding of its importance to investors. The international community, including the United States, has encouraged Tajikistan to improve its legal system, with mixed results. Well-written laws have been passed, but implementation and consistent interpretation lag behind. Few people, especially small business owners, are aware of their rights and responsibilities. Tajikistan's weak judiciary is ill-equipped to defend the interests of investors.

Despite this, foreign investors have found some relief in disputes involving Tajik entities. In 2007, a trade dispute involving a U.S. company and a state-owned enterprise was resolved by the Tajik government paying off the full amount of the claim. A Norwegian company successfully settled a suit in foreign arbitration. So far, though, such cases have been very few.

Tajikistan has well-written commercial and bankruptcy laws. The country's contract law is modeled on European legislation. These laws are regulated under the country's Civil Code; however, they are not always enforced in the courts.

Tajikistan is starting to develop an Institute of International Arbitration. It has signed bilateral agreements with several countries on arbitration and investment disputes, but these agreements are not always enforced or recognized. Tajikistan does not have a bilateral agreement with the United States.

In 1993 Tajikistan became a member of the International Association on Investment Guarantees as well as the International Center for the Settlement of Investment Disputes (Washington Convention). Tajikistan is not a party to the New York Convention of 1958 on the Recognition and Enforcement of Foreign Arbitral Awards.

#### PERFORMANCE REQUIREMENTS/INCENTIVES

Current legislation provides the same tax and customs incentives to local and foreign investors. In practice, however, companies with close connections to the government get preferential treatment. The government does not formally impose performance requirements as a condition for establishing, maintaining, or expanding investment. While there is no requirement to "buy locally," it is encouraged.

#### RIGHT TO PRIVATE OWNERSHIP AND ESTABLISHMENT

The government wants to encourage business development but faces major obstacles, including its own poor management and corrupt practices. In principle, private entities may establish and own businesses and engage in almost all forms of remunerative activity. Foreign entities may establish, acquire, and dispose of interests in business enterprises. In practice, however, the old Soviet mentality still prevails. Government inspectors often operate on the principle that activities are not permitted unless they are expressly allowed (or unless he is remunerated for adopting a more flexible interpretation), and since laws are neither published nor uniformly applied and interpreted, businesspeople often find Tajikistan frustrating.

There are other unofficial barriers. Informal networks of clan-based, interrelated suppliers often exist, forcing would-be investors to "buy in" to the system, hindering competition and sometimes constraining new investors from fully participating.

The government faces a daunting task to improve the operating environment. Restructuring must be implemented at each sub-governmental level for each area of reform. While the Tajik government has begun reviewing these weaknesses and is making some improvements, the business environment remains difficult.

#### PROTECTION OF PROPERTY RIGHTS

Undeveloped legal avenues for dispute resolution create a weak

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environment for property rights protection in Tajikistan.

According to Tajik law all land belongs to the state, but foreign investors can acquire up to 50-year land-use rights. There are no legal limitations on foreign ownership or control of other property, but there are significant restrictions on using land-use rights as collateral. A revised Land Code submitted to the government in 2008 providing for the sale of land-use rights, was changed at the last minute by an unknown official, leaving the issue confused. Efforts are underway to introduce new, clearer legislation, but it remains a thorny issue. The government adopted mortgage legislation in December 2007 which may allow parties to use property as collateral. In practice land use continues as before, however, because no legal mechanisms and procedures were developed to implement these new laws.

When secured interests in property do exist, enforcement remains an issue. Investors should be aware that establishing title may be a more involved process than in western countries, since ownership is often unclear. A system to record, protect and facilitate acquisition and disposition of property exists but needs improvement. Most banks have reduced lending as a result of the financial crisis; in the past mortgage rates have been very high. Finally, the legal system is not adept at quickly and efficiently settling disputes.

Tajikistan affords few protections for patents, copyrights, trademarks and other intellectual property. However, the United States is working with the government of Tajikistan to help revise intellectual property rights legislation. Tajikistan has taken significant recent steps to protect intellectual property, including an amendment to the Law on Intellectual Property to protect copyright owners from Internet theft, a new office dealing with intellectual property violations in the Ministry of Interior, and a parliamentary agreement to join the Rome Convention for the protection of intellectual property.

#### TRANSPARENCY OF THE REGULATORY SYSTEM

Cronyism, nepotism and corruption create a business environment that favors those with connections to the government. Tajikistan's regulatory system lacks transparency and poses a serious impediment to businesses' operations. Regulators and officials often apply laws arbitrarily, and are unable or unwilling to make decisions without a supervisor's permission, leading to lengthy delays. Executive documents -- i.e., presidential decrees, laws, government orders, instructions, ministerial memos, and regulations -- are often inaccessible, leaving businesses and investors in the dark about the rules. Each ministry has its own set of normative acts that are not published and may contradict law or normative acts of other ministries.

Tajikistan's legislation provides for 18 different types of taxes and numerous ways to calculate them. Not only are the regulations complicated, but the inconsistency with which they are applied impedes the development of small and medium enterprises. The tax code came into effect November 3, 2004, and was amended most recently on December 3, 2009. In mid-2008 the government of Tajikistan declared a two-year moratorium on tax inspections, which government officials had used routinely to extort money from business owners.

An inspections law signed in 2006 and promoted extensively by the International Finance Corporation has reduced the practice of government agencies shaking down enterprises for bribes, but reports of such incidents are still widespread. Tajikistan is working towards international accounting norms, but these are not yet implemented.

Tajikstandart, the government agency responsible for certifying goods and services, calibrating and accrediting testing laboratories, and supervising compliance with state standards, does not publish its fees for licenses and certificates or its regulatory requirements. As a result, businesses are vulnerable to individual inspectors' whims. So far no concrete steps have been taken to create proposed "one-stop shops" for certifying businesses in various categories.

Structural problems aside, the Tajik government needs to convey

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its goals and procedures to the inspectors and other government employees who interact with businesses daily. As long as government inspectors treat their positions as a license for rent-seeking -- and as long as the government tolerates it -- Tajikistan will remain a difficult place for investors.

#### EFFICIENT CAPITAL MARKETS AND PORTFOLIO INVESTMENT

Tajikistan's nascent banking sector faces numerous challenges: insufficient capital, limited banking services, mistrust and

fallout from earlier banking system crises. The national currency, the somoni, was introduced in October 2000.

The total value of regulatory capital of all commercial banks in Tajikistan as of October 2009 is 939.8 million somoni (approximately \$215 million). Estimated net worth of the top three commercial banks is as follows:

- Orion Bank: 300 million somoni (\$68.6 million)
- TojikSodirot Bank: 100 million somoni (\$22.8 million)
- AgroInvest Bank: 185 million somoni (\$42.3 million)

As of October 1, 2009, there are 13 banks, 6 credit societies, 1 non-banking financial organization and 114 micro finance organizations in Tajikistan, as well as the National Bank of Tajikistan. Nine banks are joint stock companies, one is state-owned, and three are branches of foreign banks: Tijorat (Iran), KazCommerceBank (Kazakhstan) and First Micro Finance Bank of Tajikistan, owned jointly by the Aga Khan Fund for Economic Development and the International Finance Corporation.

Tajikistan's ratio of migrant labor remittances to GDP, standing at 40% in 2009, was among the highest in the world. Over the course of the year, as many as a million Tajiks working abroad, primarily in Russia, sent home \$1.8 billion through the banking system. This is a one-third decline over 2008, due to the effects of the global financial crisis on the Russian labor market. Although an ever greater share of remittances flow through the banking system, banks have limited success luring consumers to deposit their funds into savings accounts that could be used for investment. The 2008 scandal in which the National Bank misreported loans it had underwritten to cotton investors did not help, although the International Monetary Fund reports that the Bank has improved its accounting and cooperation.

The limited lending has been at very high interest rates. Before the financial crisis, with inflation running about 10%, local commercial banks were issuing 12-month loans worth more than \$100,000 at 24% APR, prohibitively expensive for most customers to develop a new business. Interest on smaller, shorter term loans was as high as 36% APR. In addition, banking officials were known to ask for kickbacks in amounts up to 10% of the loan they approved. Due to such high interest rates and low capital, few investors secure business or personal loans through banks. In the wake of the financial crisis banks have reduced lending due to fears of default. The government's plan to write off over \$500 million in agricultural debts may ease some concerns, but the necessary recapitalization of the National Bank may add its own problems. Despite the many difficulties, Tajik banks remain relatively well capitalized, with good asset-to-debt ratios.

The private sector has access to micro-credit, commercial credit, and factoring instruments. Some banks provide trade financing services. To reduce barriers to competition, the government has paved the way for non-bank financial organizations and commercial microfinance. The government recently took steps toward creating a credit bureau, though its realization remains several years off. Much work is needed to strengthen creditor and shareholder rights. Performance on micro-credit loans exceeds 90%; business loans also perform well. Checking accounts exist but are not widely used due to strict cash withdrawal procedures.

There are no known cross-shareholding or stable shareholder arrangements. Hostile takeovers are rare, though there are no written protections against them. State authorities selectively apply laws and regulations to take over or completely shut down companies. A stock market in Tajikistan was founded in 1994, but foundered due to a lack of new financial instruments. In

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2000, the government established a Central Share Registry (CSR) in the Ministry of Finance to record, monitor, and facilitate share purchases and sales for more than 400 stock companies.

The government issues treasury bills to cover budget deficits, using local banks to cover the loans. The government recently has begun selling shares in the Roghun hydroelectric project directly to the population. Since by most accounts Tajiks are forced or intimidated into buying the shares, and little information about shareholder rights or maintenance of funds has been released, this represents a step backward rather than forward for the country's financial system.

More information about the National Bank of Tajikistan is available on its website: <http://www.nbt.tj>.

#### COMPETITION FROM STATE-OWNED ENTERPRISES

While the government of Tajikistan has sold many formerly state-owned small and medium enterprises, several large enterprises remain under state control. These include the national electrical grid operator (Barqi Tojik), the natural gas operator (Tojigaz), and the Talco Aluminum Company, Tajikistan's largest enterprise. As a general rule, private companies cannot hope to compete with State-Owned Enterprises (SOEs) unless they have good connections with the government. This has less to do with any explicit policy favoring SOEs than with the fact that Tajikistan's ruling elite often profit directly from the SOEs.

SOEs are not run transparently. Their budgets are not publicly known, although efforts are underway to make them more transparent.

#### CORPORATE SOCIAL RESPONSIBILITY

There is little awareness of corporate social responsibility in the western sense in Tajikistan. Many, if not most, corporations have contributed to the Roghun campaign (see above, under Efficient Capital Markets), but many of these contributions were coerced. Corporations do engage in voluntary community assistance, on an ad hoc basis.

#### POLITICAL VIOLENCE

Political violence in Tajikistan is minimal. The security situation has stabilized significantly since the Civil War ended in 1997. All factions signed a peace agreement, and the government incorporated members of the opposition into a multi-party system -- although President Rahmon has since steadily removed opposition figures from government positions to consolidate his power. The Tajik government has worked to minimize the impact of political discord on foreign investors. With the civil war in recent memory, the people of Tajikistan are keen to maintain peace, a factor sometimes adduced to explain the population's acceptance of the government's egregious corruption.

Tajikistan sometimes serves as a transit country for extremist terrorist groups. In mid-2009 there was some sporadic anti-regime activity in the central part of the country, but this activity appears to have ceased. Narcotics trafficking from Afghanistan is significant.

#### CORRUPTION

As in previous years, Tajikistan ranked very low on the 2009 Transparency International Corruption Perceptions Index. It scored 2.0 out of 10, placing it 158 on a list of 180 countries surveyed. Anemic anti-corruption efforts from the Tajik government have proven ineffective -- indeed, some anti-corruption units are ironically known to be particularly corrupt. Extremely low official salaries do not help, since they force many officials to look for means to make ends meet. Buying a government position is common, and people frequently bribe superiors for promotions. Cultural expectations play a role as well: people are expected to share their good fortune with superiors and extended family, and nepotism or other favors for clan-members, extended family, or superiors are commonplace.

As noted throughout this report, endemic corruption stifles business by local and international investors. Officials at any



number of agencies expect payoffs for opening and running a business. Although a signatory to the OECD Convention on Combating Bribery and the United Nations Convention against Corruption, corrupt practices are deeply embedded in every aspect of commerce, and calculating the actual cost is difficult. In 2007, President Rahmon created a new Agency to Fight Corruption and Economic Crimes, reporting directly to the Presidential Administration, to monitor fiscal activity of individuals, banks, and corporations. This agency has still done little to fight corruption within government ranks, focusing instead on individual and corporate malfeasance and especially on the financially vulnerable population, including teachers, doctors, and others with low salaries.

#### BILATERAL INVESTMENT AGREEMENTS AND DOUBLE TAX TREATIES

Agreements on avoiding double taxation exist between Tajikistan and Russia, Belarus, Ukraine, Azerbaijan, Turkey, and some other countries, but not between Tajikistan and the United States. The Trade Investment Framework Agreement between the five Central Asian states and the United States is under development. Tajikistan is a member of the EURASEC trade organization, which provides loose regulation of trade among Russia, Belarus, Kazakhstan, Kyrgyzstan, and Tajikistan. Tajikistan is also a member of the Shanghai Cooperation Organization.

#### OPIC AND OTHER INVESTMENT INSURANCE PROGRAMS

Tajikistan is open to insurance and financing programs of the Overseas Private Investments Corporation (OPIC). Thus far, however, OPIC's involvement in investments in Tajikistan has been limited to a beverage bottling project. Tajikistan's relative macroeconomic stability and a growing economy provide for opportunities for OPIC insurance and financing.

The Export-Import Bank of the U.S. considers projects on a case-by-case basis, although Tajikistan has not qualified for its programs. Opportunities exist in infrastructure projects, aircraft export financing, agricultural machinery, and food processing.

#### LABOR

Due to a crumbling and corrupt education system, Tajikistan's labor force is becoming increasingly less well-trained, and is ill-equipped to provide Western standards of customer service and business. International businesses and NGOs lament the small pool of qualified office staff for their organizations. Some have brought in Chinese or Indian laborers for construction projects. Corruption in secondary schools and universities means degrees do not reflect real professional training or competency. Although education is compulsory, many students must work to support their families. Brain drain is a problem for domestic employers, since many Tajiks with advanced skills emigrate to find better opportunities.

The official unemployment rate in Tajikistan is 9.5%, but the actual rate may be up to 30% nationwide, with some areas much higher. These rates are offset by the estimated one million labor migrants working abroad, almost all of them in Russia. While remittances from these migrants have dropped 33% compared to last year, most migrants appear to be staying abroad, hoping for better times. It is not hard to see why: the average monthly salary in Tajikistan is 311.55 somoni (\$71.20), and inflation outstrips wage growth. According to the World Bank, 53% of the population lives below the poverty line and an additional 17% are considered "desperately poor." Experts say the drop in remittances is likely to increase these percentages significantly. Remittances have a profound effect on economic stability in Tajikistan, paying for a high percentage of its growing appetite for imports, particularly foreign vehicles, construction materials, food, and consumer goods.

Tajikistan's high birth rate means that 50% of the population is

less than 25 years old; if the trend continues, unemployment will increase.

Nepotism and corruption play a large role in the labor market. Many of the higher prestige or more lucrative jobs require a "buy-in," as well as continuing payments to supervisors, leading the job-holder to look for ways to pay back that sum by seeking

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bribes or other corrupt activity.

The labor market favors employers. Although technically the majority of workers are unionized, most are not aware of their rights and few unions have the will or know-how to effectively advocate for workers' rights. Unions are tightly controlled by the government.

Tajikistan is a party to 44 international labor conventions. In June 2005, it signed the Worst Forms of Child Labor Convention, dedicated to eliminating child labor and protecting children and young people. Despite this, in past years schoolchildren and university students have frequently been forced by officials to pick cotton, providing one of the country's main sources of income. According to most reports students were not sent into the fields during the 2009 harvest, although some government employees were furloughed to pick cotton. The International Labor Organization notes that Tajikistan has not submitted reports required by the Convention.

#### FOREIGN TRADE ZONES/FREE TRADE ZONES

Tajikistan is a landlocked country whose neighbors demonstrate varying abilities and interest in trade. Most of Tajikistan's rail and road links pass through Uzbekistan, whose relations have soured considerably with Tajikistan, making transit of goods through Uzbek territory difficult. For example, in October 2007 Uzbekistan decreed that traders must pay the full value of excise goods passing through its territory as a customs deposit -- a fee that is then difficult to get back. There are frequent reports of railway carriages bound for Tajikistan that are held up for weeks or months in Uzbek territory for no apparent reason. There are no commercial flights between Uzbekistan and Tajikistan. To overcome this dependence on Uzbekistan, Tajikistan has sought to open alternative transit routes to the north, via Kyrgyzstan and Kazakhstan; the south, via Afghanistan, Pakistan, and Iran; and the east, via China.

The opening of the border crossing at Kulma, in eastern Tajikistan, has facilitated increased trade with China, although the 4,600-meter pass is open only intermittently due to extreme weather. Passing over the some of the roughest and least developed territory in Asia, even when open, this route is difficult and time-consuming, and without major infrastructure improvements, it will have limited impact on trade. Several international financial institutions, along with the governments of China and Iran, have projects to improve the road system. The Asian Development Bank (ADB) is working on the road from Dushanbe northeast to Osh, Kyrgyzstan, and ultimately to China. The Chinese government is funding the road from Dushanbe to Tajikistan's second-largest city, Khujand. The Iranian government is helping to construct the Anzob tunnel to facilitate year-round travel on that route. There is also strong interest to improve links to the south. The United States government built a \$39 million bridge linking Tajikistan and Afghanistan, connected to a new road financed by the Japanese.

Though the Law on Free Trade Zones was enacted in 2004, only in 2009 has the government made progress on implementation, with the establishment -- at least on paper -- of the Soghd Free Economic Zone in the northern city of Khujand and the Pyanj Free Economic Zone near the U.S.-funded bridge across the Pyanj River on Tajik-Afghan border. Two additional zones in the east and south are under consideration. The zones are designed to attract foreign capital, investment, and technology, and to develop Tajikistan's economic potential by establishing minimal

taxes, low land leasing rates, low duties on imports and exports, and special visa rules. So far, however, no companies, foreign or domestic, have located to the free economic zones (although the Sughd zone incorporates 37 enterprises that already existed on its territory).

WTO accession negotiations were launched in 2004 by the Tajik government with assistance from the U.S. and other donors. In January 2008, a group of WTO experts met with President Rahmon in Dushanbe, who reconfirmed his intention to lead the country into the WTO. Some Tajik experts believe it will take at least five more years before that goal is realized, however. The last negotiations on Tajikistan's accession were conducted in Geneva in October 2009.

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#### FOREIGN DIRECT INVESTMENT STATISTICS

According to data from the State Statistical Committee, total foreign direct investment (FDI) in the first nine months of 2009 was \$70.7 million. Of this, \$43.4 million came from former Soviet states (mostly Kazakhstan, with investments of \$26.1 million). Total FDI in the same period in 2008 was \$462 million, indicating the financial crisis took a heavy toll. Between 1997 and 2009, total FDI amounted to \$1.3 billion.

In the first nine months of 2009, the FDI to GDP ratio equaled 0.5%, down from 9% in 2008.

According to Tajikistan's official state statistics, the largest foreign direct investors for the first nine months of 2009 were:

Russia -- \$17.2 million  
Cyprus -- \$0.14 million  
United States -- \$0.08 million  
Great Britain -- \$10 million  
Switzerland -- \$0.16 million  
Kazakhstan -- \$26.1 million  
China -- \$3.3 million

Foreign direct investment by sector over that period was as follows:

Energy: \$10 million  
Communications: \$14.8 million  
Banking: \$26.4 million  
Gold mining: \$3.1 million  
Agriculture: \$0.15 million

(The government's definition of investment for the purposes of these statistics is not always clear. Several major foreign direct investors from Cyprus and the United States, for example, are Tajik-held companies registered offshore.)

These figures do not include state-led investment projects, such as the Chinese and Iranian roadwork noted above. The Chinese have invested over \$1 billion in Tajik infrastructure projects, most of it in the form of preferential loans. Russia has invested nearly \$200 million in the Sangtuda-1 hydroelectric project (completed in 2009), while Iran is developing the Sangtuda-2 project just downstream.

In terms of Tajik foreign investment abroad, Tajikistan has signed an agreement with Iran to modernize the Iranian port in Bandar-Abbas in order to accelerate shipments of aluminum from and alumina to the Talco plant in Tursunzade, Tajikistan. Due to the world financial crisis little has been done so far, however.

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